

Kingsmen Creatives (KMEN SP)

Consumer Cyclical - Consumer Services

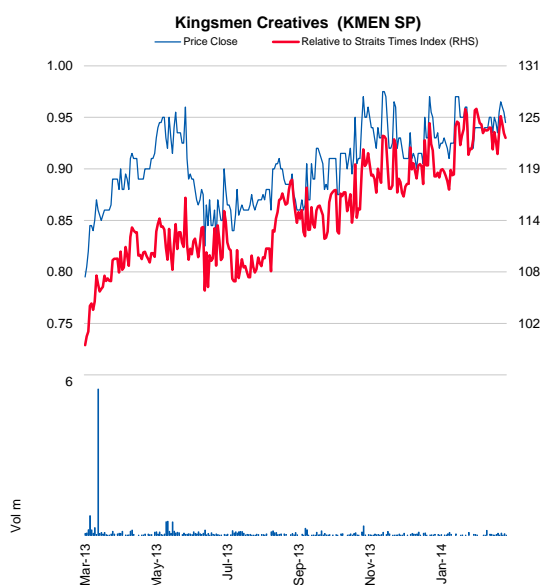
Market Cap: USD144m

Buy (Maintained)

 Target Price: **SGD1.10**

 Price: **SGD0.95**

A Busy Year Ahead

 Macro ◆◆
 Risks ◆◆
 Growth ◆◆
 Value ◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.03m/0.02m
Cons. Upside (%)	-8.4
Upside (%)	16.6
52-wk Price low/high (SGD)	0.80 - 0.98
Free float (%)	33

Shareholders (%)	
O-Vest Pte Ltd	19.6
Islanda Pte Ltd	19.6

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KMEN's 4Q13 PATAMI rose 23.1% y-o-y to SGD7.6m on the back of a 8.2% y-o-y revenue growth, as it completed some projects during the quarter. The company's outlook remains healthy, supported by the pipeline of MICE events and theme park launches across the region - although growth may be limited by its ability to take on more projects. Maintain BUY with a SGD1.10 TP, based on a 8x FY13F P/E (ex-cash).

- ◆ **Expect a better year ahead.** Kingsmen Creatives (KMEN) has a healthy current orderbook of SGD138m (vs SGD81m a year ago), of which SGD117m is expected to be recognised in FY14. KMEN typically continually secures interior fit-out contracts throughout the year. That, coupled with the planned developments in the region (ie new malls and theme parks), indicates revenue and PATAMI are likely to continue to grow. On top of that, KMEN's strong balance sheet (net cash of SGD59.2m as of end-FY13) puts it in a good position to bid for upcoming projects.
- ◆ **Regional developments a boon for KMEN.** The pipeline of theme parks and shopping malls across Asia would be beneficial for KMEN. Closer to home, the Government's plans for Changi Airport's Project Jewel (a new mixed-use complex) is likely to benefit KMEN. International luxury brands are still expanding into Asia and into new markets, eg travel retail (in order to establish a retail presence in airports). As airports are being refurbished and new terminals built, such developments would provide more opportunities for the company. Other developments that could be positive for the company include the pickup of meetings, incentives, conferences and exhibitions (MICE) events as well as the pipeline of theme park launches in Asia.
- ◆ **Opportunities to enhance portfolio.** There are several exciting theme parks expected to be launched over the next few years, which would benefit KMEN. Given the size of its operations, KMEN successfully securing some parcels of work in each theme park project - which is likely, given its track record - would enhance its portfolio. As such, we remain positive on its outlook for growth. Maintain BUY with a TP of SGD1.10.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (SGDm)	261	290	296	316	336
Reported net profit (SGDm)	16.3	16.9	18.4	19.4	20.9
Recurring net profit (SGDm)	16.3	16.9	18.4	19.4	20.9
Recurring net profit growth (%)	8.4	3.6	8.9	5.3	7.8
Recurring EPS (SGD)	0.09	0.09	0.10	0.10	0.11
DPS (SGD)	0.04	0.04	0.04	0.04	0.04
Recurring P/E (x)	11.1	10.7	9.8	9.3	8.7
P/B (x)	2.81	2.45	2.10	1.81	1.64
P/CF (x)	8.87	6.48	7.24	9.79	8.55
Dividend Yield (%)	4.2	4.2	4.2	4.2	4.2
EV/EBITDA (x)	7.23	6.04	5.64	4.46	3.97
Return on average equity (%)	26.7	24.3	23.0	20.8	19.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)				(0.0)	(0.0)

Source: Company data, OSK-DMG estimates

4Q13 Results Review

Figure 1: Quarterly results

YE 31 Dec (\$m)	4Q13	4Q12	y-o-y %	3Q13	q-o-q %	FY13	FY12	y-o-y %	Remarks
Revenue	110.3	101.9	8.2%	63.6	73.5%	296.3	290.2	2.1%	In line with expectations
Cost of sales	(84.6)	(78.2)	8.1%	(46.4)	82.2%	(219.8)	(217.8)	0.9%	
Gross profit	25.8	23.7	8.6%	17.2	50.2%	76.5	72.4	5.7%	
Other Operating Income	1.7	1.4	23.8%	0.8	107.2%	4.9	4.4	11.6%	
Depreciation	(0.4)	(0.4)	-7.2%	(0.4)	-11.3%	(1.6)	(1.6)	0.9%	
Salaries and related costs	(14.6)	(12.4)	18.2%	(10.7)	37.0%	(45.8)	(41.2)	11.2%	KMEN increased headcount during the year
Other operating expenses	(3.1)	(4.3)	-26.1%	(3.4)	-6.6%	(12.3)	(13.7)	-10.5%	
Operating profit	9.4	8.1	15.5%	3.5	165.2%	21.8	20.3	7.4%	
Financial income, net	0.1	0.0	175.0%	0.0	46.7%	0.1	(0.0)	-1133.3%	
Share of Associates	(0.1)	0.3	-128.4%	0.1	-159.2%	0.8	1.3	-36.0%	
Profit Before Taxes	9.4	8.4	11.7%	3.7	153.2%	22.7	21.6	5.4%	
Income Tax Expense	(1.2)	(1.8)	-34.1%	(0.6)	108.0%	(3.7)	(4.1)	-11.1%	
Minority Interest	(0.6)	(0.4)	43.6%	0.1	-838.0%	(0.6)	(0.5)	23.2%	
Net Income	7.6	6.2	23.1%	3.2	137.0%	18.4	16.9	8.9%	In line with expectations
Margins (%)									
Gross profit	23.4%	23.3%	0.1 ppt	27.0%	-3.6 ppt	25.8%	24.9%	0.9 ppt	
EBIT	8.5%	8.0%	0.5 ppt	5.6%	2.9 ppt	7.4%	7.0%	0.4 ppt	
PBT	8.5%	8.2%	0.3 ppt	5.8%	2.7 ppt	7.7%	7.4%	0.2 ppt	
PATMI	6.9%	6.1%	0.8 ppt	5.0%	1.8 ppt	6.2%	5.8%	0.4 ppt	

Source: Company data

Financial Exhibits

Profit & Loss (SGDm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover	261	290	296	316	336
Cost of sales	(194)	(218)	(220)	(234)	(249)
Gross profit	67	72	77	82	87
Gen & admin expenses	(2)	(2)	(2)	(2)	(2)
Selling expenses	(38)	(41)	(46)	(49)	(52)
Other operating costs	(12)	(14)	(12)	(13)	(14)
Operating profit	15	16	17	18	20
Operating EBITDA	19	20	19	22	24
Depreciation of fixed assets	(3)	(4)	(2)	(4)	(4)
Amortisation of intangible assets	(0)	(0)	-	(0)	(0)
Operating EBIT	15	16	17	18	20
Other recurring income	4	6	6	6	6
Interest income	0	0	0	0	0
Interest expense	(0)	(0)	(0)	(0)	(0)
Pre-tax profit	20	22	23	25	27
Taxation	(3)	(4)	(4)	(5)	(5)
Minority interests	(0)	(1)	(1)	(1)	(1)
Profit after tax & minorities	16	17	18	19	21
Reported net profit	16	17	18	19	21
Recurring net profit	16	17	18	19	21

Source: Company data, OSK-DMG estimates

Cash flow (SGDm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Operating profit	15	16	17	18	20
Depreciation & amortisation	4	4	2	4	4
Change in working capital	(1)	6	6	(2)	(3)
Other operating cash flow	5	6	4	4	5
Operating cash flow	23	32	29	25	26
Interest received	0	0	0	0	0
Interest paid	(0)	(0)	(0)	(0)	(0)
Tax paid	(3)	(4)	(4)	(7)	(5)
Cash flow from operations	20	28	25	19	21
Capex	(3)	(2)	(5)	(3)	(3)
Other new investments	-	-	(1)	-	-
Other investing cash flow	0	1	0	-	-
Cash flow from investing activities	(2)	(2)	(5)	(3)	(3)
Dividends paid	(8)	(8)	(8)	(8)	(8)
Increase in debt	(0)	(1)	(0)	(0)	(0)
Other financing cash flow	(0)	(0)	0	-	0
Cash flow from financing activities	(8)	(9)	(8)	(8)	(8)
Cash at beginning of period	30	33	53	64	72
Total cash generated	10	18	12	8	10
Forex effects	1	(1)	1	-	-
Implied cash at end of period	40	50	66	71	82

Source: Company data, OSK-DMG estimates

Financial Exhibits

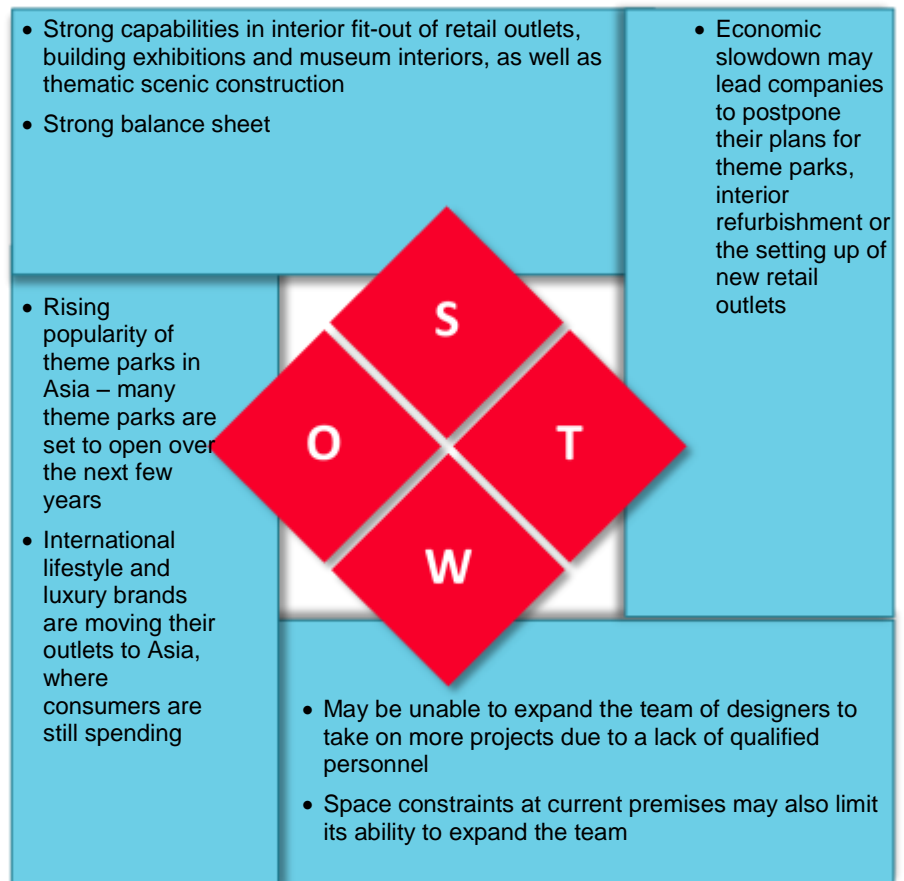
Balance Sheet (SGDm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	33	53	64	72	79
Inventories	11	18	21	18	19
Accounts receivable	88	74	90	102	114
Other current assets	8	12	8	11	12
Total current assets	141	156	182	202	225
Total investments	8	9	11	11	11
Tangible fixed assets	11	9	11	11	10
Intangible assets	5	5	5	5	5
Total other assets	0	1	1	1	1
Total non-current assets	25	23	28	27	26
Total assets	166	180	210	229	251
Short-term debt	3	3	3	3	3
Accounts payable	41	45	64	71	78
Other current liabilities	51	53	51	50	54
Total current liabilities	95	101	118	123	134
Total long-term debt	2	2	2	2	1
Other liabilities	1	0	1	1	1
Total non-current liabilities	3	2	2	2	2
Total liabilities	98	103	120	125	136
Share capital	23	23	23	23	23
Retained earnings reserve	43	52	63	77	88
Other reserves	(1)	(1)	(0)	(0)	(0)
Shareholders' equity	65	74	86	100	111
Minority interests	3	3	4	4	4
Other equity	(0)	0	0	-	-
Total equity	68	77	90	104	115
Total liabilities & equity	166	180	210	229	251

Source: Company data, OSK-DMG estimates

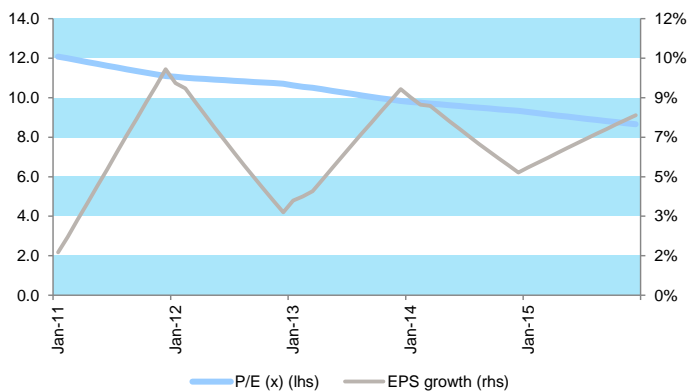
Key Ratios (SGD)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	11.7	11.2	2.1	6.5	6.6
Operating profit growth (%)	0.6	3.7	6.2	9.6	7.7
Net profit growth (%)	8.4	3.6	8.9	5.3	7.8
EPS growth (%)	9.8	3.6	8.9	5.3	7.8
Bv per share growth (%)	14.7	14.4	16.7	16.3	10.5
Operating margin (%)	5.9	5.5	5.7	5.9	5.9
Net profit margin (%)	6.3	5.8	6.2	6.1	6.2
Return on average assets (%)	10.5	9.8	9.5	8.8	8.7
Return on average equity (%)	26.7	24.3	23.0	20.8	19.8
Net debt to equity (%)	(41.2)	(63.0)	(65.8)	(65.2)	(65.8)
DPS	0.04	0.04	0.04	0.04	0.04
Recurrent cash flow per share	0.11	0.15	0.13	0.10	0.11

Source: Company data, OSK-DMG estimates

SWOT Analysis

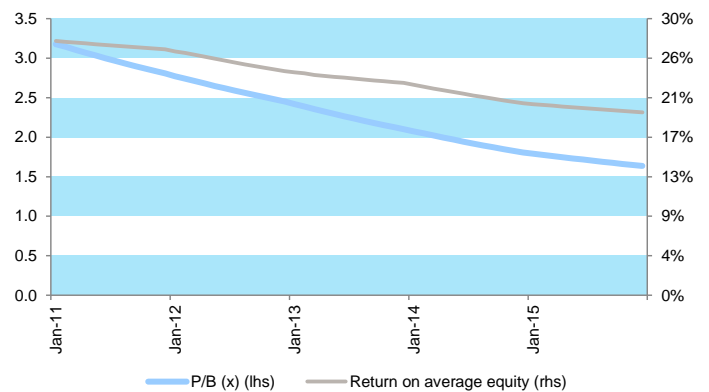


P/E (x) vs EPS growth



Source: Company data, OSK-DMG estimates

P/BV (x) vs ROAE

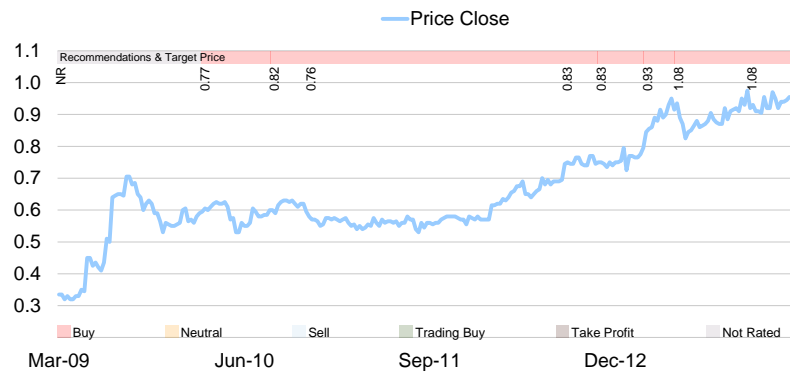


Source: Company data, OSK-DMG estimates

Company Profile

Kingsmen Creatives, a regional communications design and production group, builds displays for exhibitions and provides interior fit-out services. Its interior division's clients are high-end brands such as *Tiffany*, *Dior*, *Swarovski*, *Guess*, *Abercrombie & Fitch*, *Gucci*, *Robinsons* and *BMW*. Its exhibitions & museum division is involved in thematic and scenic construction (theme parks). The company's projects include the construction of various attractions at Universal Studios Singapore and extension works at Hong Kong Disneyland.

Recommendation Chart



Source: OSK-DMG estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-11-15	Buy	1.08	0.98
2013-08-16	Buy	1.08	0.91
2013-05-17	Buy	1.08	0.92
2013-03-05	Buy	0.93	0.81
2013-03-01	Buy	0.93	0.80
2013-03-01	Buy	0.93	0.80
2013-01-18	Buy	0.83	0.73
2012-11-06	Buy	0.83	0.77
2012-08-14	Buy	0.83	0.73
2012-05-14	Buy	0.76	0.65

Source : OSK-DMG estimates, Bloomberg

DMG & Partners Research Guide to Investment Ratings

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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